

LOCAL AUTONOMY LAW EFFECTS ON ADMINISTRATIVE AND FINANCIAL STRUCTURE OF LOCAL GOVERNMENTS IN JAPAN

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Abstract

The local governments that have a significant pie within the central government expenditure furnished with vital responsibilities by the central government concerning the provision of the public services. Within the framework of the applications towards financial autonomy; the development of financial policies take attention in related with the stability of the responsibility and its financial share, and as a result of that, some reform implementations come to the front side. The continuously increasing budget deficit and the expected alterations at the fiscal federalism application field before the local government reform process do not abolish entirely to the dependency of local government to the central administration but reduce this dependency to a great extent. The local autonomy that was enforced in 2000, the limits of local autonomy that is attributed from the central government to the local governments revised and a large-scale and persistent proves of change is foreseen for the provision of the effectiveness at the regional scale. In this regard, some regulations come forefront having ties to strengthen local community and governance approach. In this study, the first objective is examining the administrative framework of the local governments in Japan before the enforcement of the Local Autonomy Law for grasping the main differences after the implementation of that related Law. The second target is analyzing deeply the Local Autonomy Law in related with the administrative and financially updated items. The third objective is putting forth reflections and effects of that related Law on the transformation of the financial structure of the local governments in Japan.

Keywords: *Japan local governments, Local Autonomy Law, Financial Structure, Administrative Structure.*

JEL Classification codes: *H7, K4, P41*

I. INTRODUCTION

Japan has been based upon constitutional monarchy and administered by a parliamentary government; and the state has been organized as central government and local government structure. After the enforcement of the Constitution, local governments engaged into a re-structuring process by the effect of democratization and de-centralization. Within the context of the study, the first objective is examination of the development of the local governments in a historical perspective. In this regard, Japan local governments provide services such as education, social welfare, infrastructure, security for improving administrative and fiscal development. Local governments apply allocated taxes, local taxes and treasury aids for financing these public services. Because of the increasing budget deficit the central and local governments of Japan need to local autonomy reforms for providing fiscal federalism. At that context, local governments' historical development, central-local government relation, the categorization of local governments, its organizational formation has been analysed. In that scope, the second target of the study, the financial structure of the local government units have been examined within the context of the income, expenditure and debt decisions, and numerical analysis have been put forth according to the designation of the financial autonomy.

II. THE HISTORICAL DEVELOPMENT OF FINANCIAL REFORM APPLICATION AND THE LOCAL AUTONOMY LAW

Japan has not a long tradition concerning the power-sharing between central and local governments. Particularly, at the Meiji period (1968-1912); the ruling elites having the objective of the national modernization to build a strong centralized state. In that scope, government based on a centralized system is mostly perceived national unification as a significant task of the (Jain, 2000, p. 3). The country was having a unitary structure; divided into feudal principalities having a significant independence or units called "Han" which are smaller than provinces. In that framework, the feudal principalities under the modernization program of Meiji government abolished in the year 1871 (Ulusoy and Vural, 2001, p.25). In the year of 1871, an influential step had been taken

on the establishment of a central government by the abolishing of the feudalism. On that scale, the Ministry of Interior was established in 1872; and this process carried out by the standardization of the municipalities and establishment of more democratic authorities (Robson, 1933, pp. 579-580). In 1887, the Meiji administration decided to set up an autonomous local government system by the enforcement of a local government law. In that context, the municipalities were too small for the provision of public services such as to administer the basic educational services, to collect the tax and to register the residents that the government decided to combine the small municipalities. As a result of that in 1898 the number of municipalities reduced to 14,289 from 71,497 (Mabuchi, 2001, p.1). The foundations of local governments had been set up in 1888 by province, district, and villages applications and in 1890 by governorates and region applications. By the 1920s onwards, new arrangements came to the front side concerning local autonomy and strengthening of the local governments, and reducing the administrative tutelage of the central government. However, the military sized the power, and again the local governments entered into the strict control of the central government; the steps put forth during the war period oriented the country to the centralization. By the end of the war, the agenda changed towards the democratization, provision of autonomy of local governments, and strengthening of local governments (Choi and Wright, 2004, p. 668; MİGM, 1999, p.668).

The Japan's local autonomy is founded on the Constitution of Japan which was put into effect in the year of 1946. By that relevant Constitution, the local governments reached to the guarantee of their autonomy and the local autonomy was mostly adopted as a significant element of democracy. In that framework, the local autonomy based articles have been located in Chapter 8 of the Japan's Constitution (CLAIR, 2014, p. 1). In that context, at Chapter 8 with the title of "Local Self-Government"; Article 92, 93, 94 and 95 are critical concerning with the local autonomy;

Article 92. Regulations concerning organization and operations of local public entities shall be fixed by law in accordance with the principle of local autonomy.

Article 93. The local public entities shall establish assemblies as their deliberative organs, in accordance with law. The chief executive officers of all local public entities, the members of their assemblies, and such other local officials as may be determined by law shall be elected by direct popular vote within their several communities.

Article 94. Local public entities shall have the right to manage their property, affairs and administration and to enact their own regulations within law.

Article 95. A special law, applicable only to one local public entity, cannot be enacted by the Diet without the consent of the majority of the voters of the local public entity concerned, obtained in accordance with law⁸.

By the Local Government Act that put into force in 1947; the local governments' tax revenues have been increased, and in 1948 local allocation tax system that is the basis of today's local distribution tax put into effect for assisting administrations having a limited amount of taxed resources. American delegation chaired by Prof. Dr. Shoup invited to Japan by the government for making studies in related with Japan tax system in 1949. A wide-range reform had been implemented in 1950 in accordance with the Report entitled "*The Proposals of Shoup*". In this context, "Local Fiscal Assistance Synchronization" system had been established in 1950 instead of local allocation tax by carrying out studies towards the transfers' targeted assistance to local governments. Despite to those steps, the financial insufficiency problem cannot be resolved that forced the local governments to surpass the income deficit by debt and this process drag the local governments' collapse of their financial system (Canpolat and Haktankaçmaz, 2007, p. 69).

The reform towards local taxation started to be implemented in the year of 1951 within the framework of the Local Autonomy Law. According to the regulation, the fixing the rate of the corporation tax came to the forefront and the tax residence, and national health insurance tax applications take its place at the regulation and new taxation rates have been formulated. Besides, by the other arrangement that was implemented in 1952; financial tools out of taxation have been expanded in accordance with the control of the central government. The regulation put emphasis on the topics such as; the decline in the tax revenue and the expansion of the non-tax income category especially for the alleviation of the burden on the tax-payers. By this way, the decline occurred at the public income because of the decline in tax which has tried to be balanced by assistances and subsidy applications. By the reform application in 1953, the taxation process on property tax and exemptions applications took their place at the regulation. In this context, the local trade and commerce chambers, sanatoriums and hospitals, health insurance associations and agricultural cooperatives exemptions from the property tax took under the provision. By the reform process in 1954, focused on the strengthening and extending the use of taxation power by the governorates. The revisions in that scope are related to the application of the fixed property tax, alleviation of the tax rates, prefectural residence tax, the tobacco tax, and real estate transaction tax.

⁸ For details, see (http://japan.kantei.go.jp/constitution_and_government_of_japan/constitution_e.html)

Furthermore, technical financial arrangements implementation that covering the previous financial year came to the front side with the local tax reform in 1955 (Matsufuji, 2011, pp. 16-19).

By the 1970s onwards, the social insurance expenditures raised and the social welfare state approach had been developed, and new reform applications came to the agenda because of many cyclical processes such as II World War, petrol crisis that have an effect on the financial structure and the alleviation of the income level. By the end of the 1970s, Japan local governments lived serious budget deficit, and they found the solution at the augmentation of the tax rates in line with the revisions of the formation of the minimal state (Tanaka, 2011, pp. 5-6). Administrative and financial reform process in 1980 was adopted as a real financial autonomy approach and initiative, covering local citizens demands with having a difference from the previous reform applications (Yoshida, 1990, pp. 131-132). At that term, Japan government the First Provisional Administrative Reform Council started to their activities concerning the reform in June 1983. At that framework; it was determined that the Council was mostly dealing with increasing the efficiency of administrative and financial management at national and local levels. One of the most significant initiatives of that Council is the provision of greater efficiency and expenditure restraint on local governments. On that scope, the government published the "Fundamental Principles of Local Administrative Reform" that demonstrated the way to be followed at the administrative reform process in January 1985. Each local government produced their fundamental principles, and those principles formed a document that demonstrates the basic direction of the reform and the required planning devices. The administrative reform's first phase ended in 1986, and the Second Provisional Administrative Reform Council take over the responsibility from 1987 to 1990. At that point, at that period which was called as the second stage the decentralization from central government to local governments came to the political agenda (Tanaka, 2010, pp. 5-6).

Financial reform applications after the 1990s, within the framework of the 1999 Omnibus Decentralization Law, took the attention in regard to financial autonomy and expansion (Tanaka, 2011, p. 6). That period was mostly declared as a landmark for the decentralization reform; by that relevant law, the responsibility division between central government and local governments came to the political agenda. In that context, the period covering half decade of 1990s to the enforcement of the Omnibus Decentralization Law is mostly termed as the first stage of decentralization. However, when an evaluation was made concerning the 1990s; it was determined that *"while there was a rise in expectations of improvements in administrative ability on the part of local governments (especially municipalities as the basic units of local government), at the level of individual local governments, there was no great change in the pattern whereby administrative reform with simplification and rationalization as the main objectives had been taken forward up to and through the 1980s"* (Tanaka, 2010, pp. 6-7).

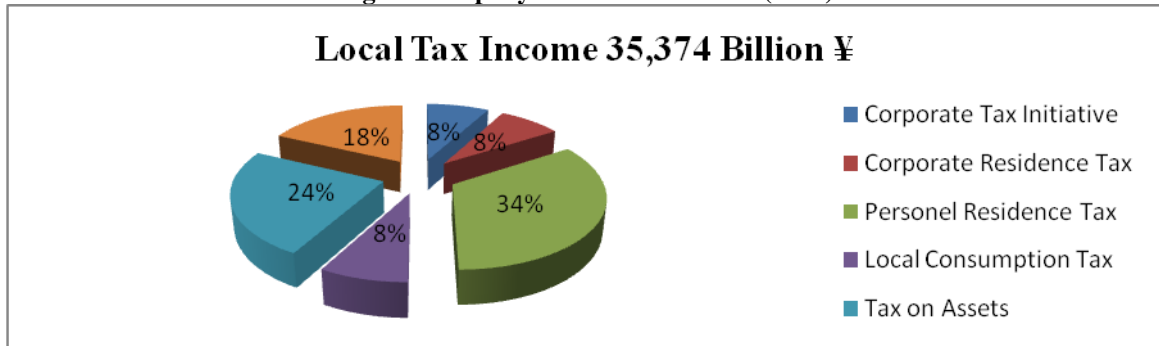
In that regard, by the Trinity Reform that was launched to be applied in the early 2000s; local governments' financial formations tried to be strengthened. Within the framework of the reform, the objective of the central government is the alleviation or the abolition of the incentives, income transfer and allocation tax between the 2004-2006 years (CLAIR, 2010, p. 53). By the 2000s onwards, when the Reform dated 2000 and Decentralization Act enter into force; the relation between central and local government reached to a more balanced structure, and collaborative relations have been raised in that framework. That related reform put into force for the provision of the effectiveness at the allocation of revenue and income between central and local government. That reform includes some provisions regarding the alleviation of the dependency of the local governments incomes' to the central government and their reaching of a more flexible and autonomous structure. After the Omnibus Decentralization Act, financial reform application sustained with the opening of the council in regard to the decentralization reforms by the basic proposals towards economic, financial and structural policy. During the year 2000, the study launched in related with structural reforms on local public reform and tax income resources transfer. In the years covering 2003, 2004 and 2005 within the context of Trinity Reform; fundamental regulations titled "Reform Initiative" applied with the decision of the Council of Ministers. In 2006, the initiatives towards the development and strengthening of decentralization had gained importance (Ikawa, 2007, p. 50). When the period after the reform has been evaluated in terms of taxation; the local governments gained the non-tax allowance allocation authority (Satoh, 2001, pp. 1-5). While the precious reform applications towards the Japan's local government units provide influential developments; the expected effectiveness from the Local Autonomy Tax applications have not been provided and it was built upon on weak foundations. In that context, the hoped benefit from the reform is the strengthening of the local autonomy, its simplification and providing its operation with making it rationalized. The earlier reform initiatives were not resulted with success in terms of economy and effectiveness that it led to the revision of the Local Autonomy Law and new reform applications including new provisions (Matsufuji, 2011, p. 7). The tax income that is obtained from the central government is approximately the double ratio of the local governments' tax, so it is observed that the financial relations and dependency between the local governments and central government is quite high. Therefore, the budgets of the local governments' important part are constituted from the transfer payments and subsidy (Su, 2006, p. 66).

III. IMPACT OF THE LOCAL AUTONOMY LAW ON FINANCIAL RESTRUCTURING

Before the reform process, the Government of Japan had 21 trillion ¥ special deficit; there were also national bonds and financial bonds. In this context, financial restructuring process launched for struggling high budget deficit (UNPA, 1996: 18). The local government revenues by the year 2000 reached 100 trillion ¥ but only 35 trillion ¥ could be obtained from local taxes. Those ratios demonstrated that the percentage of the financial autonomy of local governments is about % 30. It is also observed that the Governor's residence tax rate fall from 6.3 trillion ¥ to 5.3 trillion ¥ and corporate residence tax rate was significantly decreased.

In contrast, municipal real estate and residence taxes have % 45 shares of total tax revenues. Secondary significant revenue item of local governments is the local allocation tax, and it constitutes a share of 21.7 trillion ¥ after the reform (Shirai, 2004, pp. 5-9). In 2006 some basic policies implemented that related with the economic and financial structural reform process. In this context, it was emphasized that the effective usage of the sources of income and audition of the expenditures should be ensured by the coordination between national and local governments with financial restructuring and fiscal balances (Ikawa, 2007, p. 14). Than local tax revenues are shown on Figure 1 for evaluating the effectiveness of the reform process and balance of the income, and expenditure of local governments in Japan.

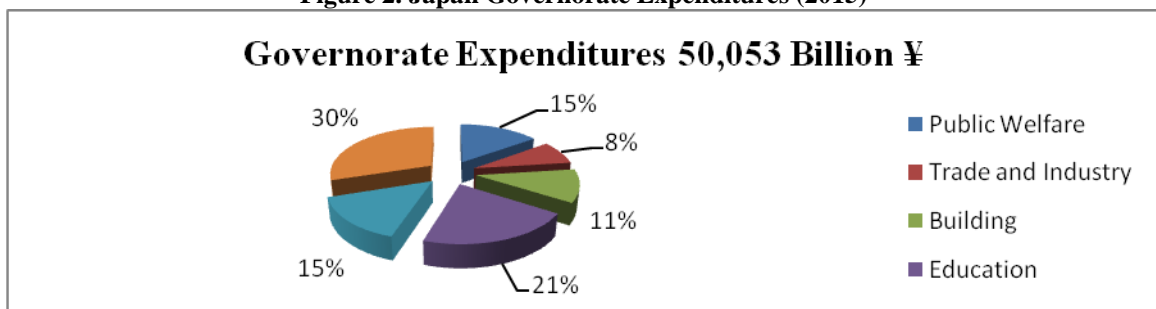
Figure 1. Japonya Local Tax Income (2015)



Source: UDA, 2015.

In Figure 1; the classification of the local tax income is illustrated. In that context; local tax classification has been composed of Corporate Tax Initiative, Corporate Residence Tax, Personal Residence Tax, Local Consumption Tax and Tax on Assets. The total income in 2015 realized as ¥ 35 374 billion. At Figure 2, governorates 2015 year expenditures are given in the local government units of Japan.

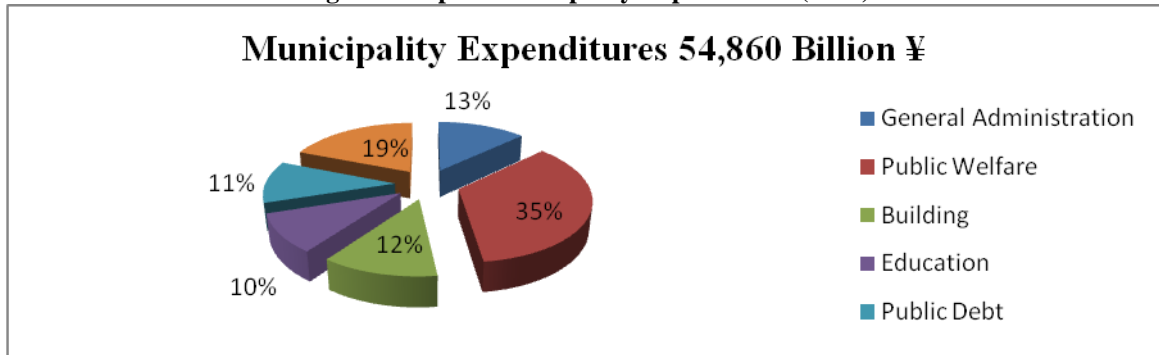
Figure 2. Japan Governorate Expenditures (2015)



Source: UDA, 2015.

According to Figure 2, 2015 year governorate expenditures realized as the total of ¥ 50 053 billion in the classification such as public welfare, trade and industry, building, education and public debt payments. Besides, at Figure 3; the other local government unit, municipality expenditures have been illustrated.

Figure 3. Japan Municipality Expenditures (2015)



Source: UDA, 2015.

According to Figure 3, the realization of municipal expenditures for 2015 is realized as ¥ 54 860 billion. When evaluating from the aspect of the expenditure; it is observed that the usual expenditures concerning public institutions and performance expenditures raised their importance at the categorization of expenditures (LAL, 2001, p. 5). In order to the evaluation of the effectiveness of the reform process; at Figure 4, medium and long-term local governments out-standing debt balance have been illustrated.

Figure 4: Trends in Long-term Debt Outstanding of Central and Local Governments (Trillion ¥)

	30 years ago (As the end of FY1986)	20 years ago (As the end of FY1996)	10 years ago (As the end of FY2006)	Present (Estimate as the end of FY2016)
Central	164	310	561	866
Local	61	139	200	196

Source: M.O.F. 2016.

According to Figure 4, while at 30 year period lasted in the 1986 financial year; the local government out-standing debt balance was 61 trillion yen, during the 2000s that reform process of the Local Autonomy Law effects are seen and the rate is observed as 139 trillion in average. By the 2000s onwards, there is a clear difference between central and local government out-standing debt balance that it demonstrates the reform applications is an active process at the financial functioning of the local governments. When a comparison is made concerning the medium and long-term out-standing debt balance; it is seen that the applications realized in the framework of the reform process have an influential effect on financial balance.

IV. CONCLUSION

The regulations of the Local Autonomy Law which provided high administrative and fiscal rights to the municipalities made significant changes in Japan local governments. These reforms affect the administrative and financial systems and the local governments' responsibilities. Especially revising the national treasury subsidies and the central government's shares in Japan local governments' fiscal system provides the fiscal decentralization. So the Local Autonomy Law's regulations and the reforms of administrative and financial structure supply the vertical and horizontal fiscal equality among the local governments which have large difference in their financial capability and area of responsibility. Therefore it is important to encourage the decentralization of financial and administrative structure for providing efficiency of local governments. So according to the Local Autonomy Law the ordinary local public body shall have general and special accounts. And all estimated revenues and expenditures within each fiscal year shall be integrated into the budget of revenues and expenditures. Each ordinary local public body shall have the right to levy and collect local taxes, as determined by law. Each ordinary local public body shall bear the expenses necessarily incurred in the performance of its own affairs and other expenses falling to the ordinary local public body in accordance with laws or cabinet orders founded in law. Consequently, these reforms and regulations improve the fiscal relationship between central and local governments.

At that point, when the impact of the local autonomy Law on financial re-structuring is evaluated it is observed that the local government revenues by the year 2000 reached 100 trillion ¥ but only 35 trillion ¥ could be obtained from local taxes. Those ratios demonstrated that the percentage of the financial autonomy of local governments is about % 30. Besides, by the 2000s onwards, there is a clear difference between central and local

government out-standing debt balance it demonstrates that the reform applications is an active process at the financial functioning of the local governments. Consequently, while local governments in Japan have been located at the administrative and financial reform process; the central government strong effect on local governments was still sustaining. In that framework; the reform applications and practices should be evaluated in a periodical context for a detailed analysis towards the transformation of the administrative and financial restructuring.

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